C1850-4 A

APRIL 1990
A CAHNERS PUBLICATION

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Outlook for hand tool sales

Partnership earns blanket order

Bill Creecy
President
Sales Systems Ltd.

Vendor support increases sales

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO.4 APRIL 1990 A CAHNERS PUBLICATION

Bill Creecy is collecting dividends from his investment in quality control at his Portsmouth, VA distributorship.

Cover photography by Dennis Brack

PARTNERING PROFILE

24 The birth of a blanket order

When a quality conscious distributor combines with a top-notch supplier—forward-thinking customers get what they need.

PARTNERING PROFILE

29 Vendor support helps sales soar 70%

To compensate for lost tannery business, Boyle Machinery used Permatex products to attract new customers.

MARKET FOCUS

33 Stability seen for hand tool sales

Look for petrochemical and public utility markets to offset possible lags in construction demand for hand tool products.

CONVENTION REPORT

37 Mindware fuels automation

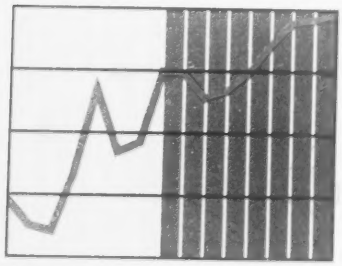
Attendees at the first-ever *Industrial Motion Control Show* learned that automation depends as much on top-down attitudes as it does on floor-level hardware.

MANAGEMENT

7 Inside Distribution
Strengthening distribution's erratic image.

41 Pacesetters
Richard D. Besser, Chicago Pneumatic Tool Co.

71 Business Report



Time to rebuild inventories.

73 Supply Outlook
Inflation will moderate.

78 Clifton's View
Managing people—your most important asset.

SALES & MARKETING

43 Strictly for Sales
What makes a good sales manager?

DISTRIBUTOR'S UPDATE

5 At Press Time
Grainger buys Satterlee; Two firms set up bar codes; Danaher/Easco merge.

11 News
Converters fabricate specialty abrasives; Brown & Sharpe invests in compatibility; PTDA sets marketing module.

21 Letters

23 Washington
NAW moves to preserve '86 tax reform.

45 Association News
NAPD thinks global; ASMMA unveils "Triple" logo.

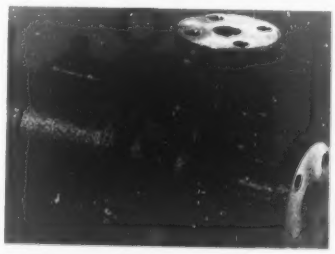
46 Calendar

75 Advertisers' Index

PROFITABLE IDEAS

49 Computers
What's new! A review of recent products.

51 Profit Makers



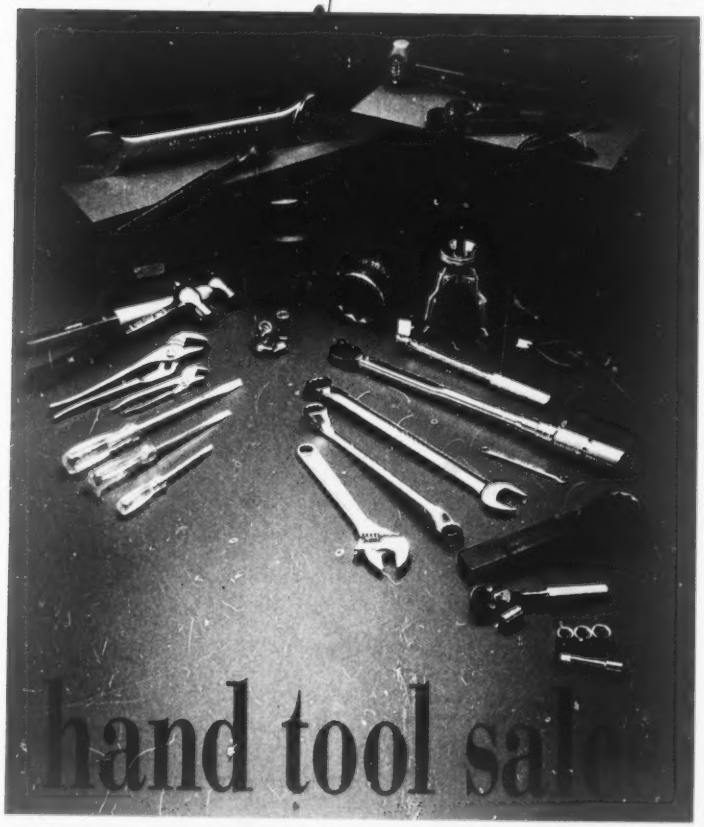
New products you can sell.

67 Sales Aids
New brochures, spec sheets and supplier catalogs.

75 Business Staff

76 Classified Marketplace

Stability seen for hand tool sales



Even if construction lags, suppliers agree that petrochemical and utility activity will keep hand tool sales at least flat, or even up slightly, during 1990.

By George M. Fodor, Managing Editor

If you want an overall picture of the 1990 hand tool market, look at two specific trend lines. Expert planners among suppliers suggest you track both fixed-rate home mortgages and the gross national product (GNP) with respect to how these indicators effect your market area.

When you see lenders in your area drop 30-year, fixed-rate home mortgages below 11% and move them toward 9%, get your hand tool and related inventory ready to meet sharply increased demand.

If lenders in your area keep mortgage rates around 11% or higher, look for solace in the petrochemical and utility sectors of the GNP. Regardless of what construction does, strong performances in the oil patch and energy areas are expected to keep hand tool sales growth equal to or slightly above the inflation rate.

No matter what hand tool markets do, experts add, you'll need professional-grade merchandising to help you capture your share of whatever business eventually does become available.

REGIONAL DIFFERENCES

With apologies to The Beach Boys, this year's refrain among hand tool distributors might well be *Wish We All Could Be California Bound.* Vendors from the Magna Div. of Vermont American to Sandvik look for construction activity to be strongest along the West Coast, in general, and within the Golden State, in particular.

Other pockets of strength are seen in the Southeast, especially Florida as well as in the Carolinas.

Lackluster building is projected for the Mid Atlantic region and, unanimously, New England. Some planners, in looking at the Northeast, hold out hope for Boston's Tunnel and Central Artery mega-projects, but the long-term nature of those efforts dictates that their impact on the hand tool market will be felt more in the future than in the this year's numbers.

Regionalism also shows up in projections for non-construction activity. Tim Walsh, of Stanley-Proto, looks for the aviation and aerospace sectors to be strong, and John Drew, of Ridge Tool, sees the oil business and the

pulp and paper industry as making major contributions to his firm's expected 5% real growth by year's end.

A resurgent oil patch is also expected to help J.H. Williams Co. log an 18 to 20% increase in sales in 1990, according to Vice President of Sales, James Gray. New, horizontal drilling techniques comprise only one of the factors which Sandvik's David Yerrid attributes to rebounding oil business and the resulting increased demand for industrial tools among drillers and ancillary firms.

Hand tool buyers need to be made aware of the difference between price and cost, says Magna's Ralph Cox.

For example, Sandvik's Yerrid describes his firm's overall focus as encompassing industrial, maintenance, repair, construction, and heating/ventilating/air conditioning buying influences. "In each group," he says, "we want to make sure our distributors are able to talk intelligently."

Your salespeople, Sandvik understands, "want to have the right information at their fingertips." Reflective of this sensitivity, Sandvik has launched a series of in-house hand tool training seminars.

"We offer a school about every six weeks," Yerrid says. "We try to customize the school to the type of distributor who's coming. Some distributors sell files. Some sell saws. We tailor each training manual as much as possible, and we focus not only on how to sell our hand tools, but also on how they're used in the field."

Ralph Cox, of Vermont American's Magna Div., says that "the industrial or construction distributor who's selling to the professional wants to present his product offerings in a professional manner." According to Cox, one of the best ways to communicate the fact that you have a better product is to display it in a professional package.

Retailing techniques are not new to industrial distribution, but they are becoming more widely used by a broader spectrum of distributors. As Cox explains, "In the past couple of years, probably due to price clubs and similar operations, distributors have been forced to have display areas and to merchandise product."

Magna's "free sample" offer serves as an intriguing approach to merchandising. The philosophy behind the offer, Cox says, is the belief "that the business is distributor driven. We supply a wide range of products in a given category, any quality level a user could want." "If a customer is using a conventional carbide saw blade, and we give him a chance to use a Dyanite carbide blade, we give the distributor opportunity for greater profit."

For their part, distributors can capitalize on offers such as Magna's sampling program by focusing the user's attention, as Cox says, "on the best cost product *vs.* the best price product."

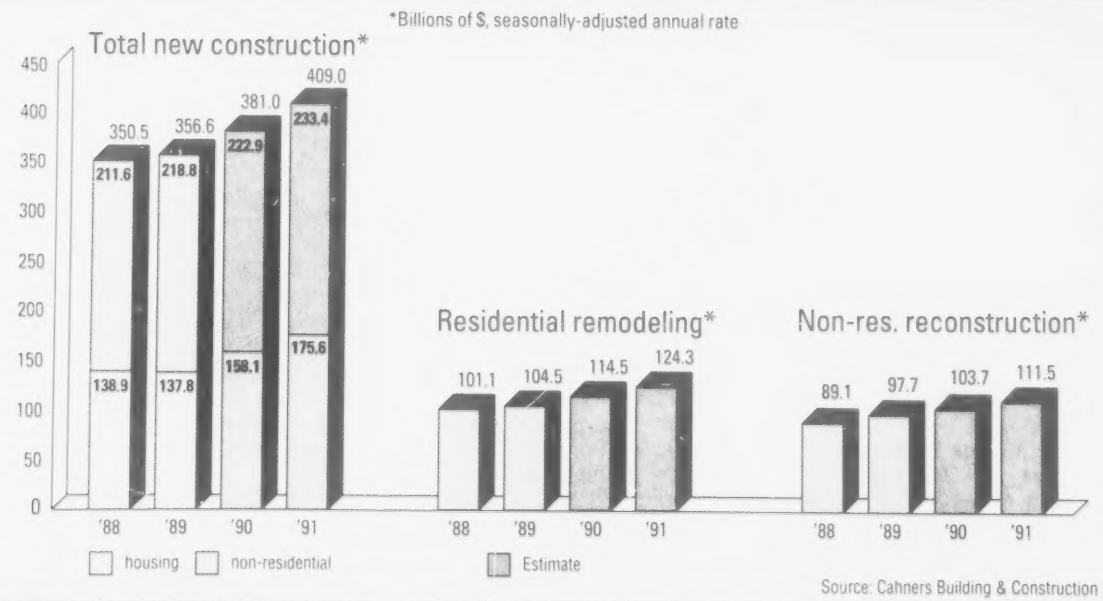
In other words, this year's hand tool market is expected to respond to sales pitches that emphasize productivity, uptime and total value rather than price. □

DEFINING TERRITORIES

As discount houses and buying clubs chip away your low-end markets, look to suppliers for increasing amounts of aid in reaching your large contractor and industrial customers.

In preparing for 1990's selling, suppliers have developed a wide variety of professional-class merchandising tools to help their distributors capture specific niches. As a result, you now have an opportunity to take advantage of support that matches your specific sales situation.

WHERE CONSTRUCTION'S DOLLARS ARE



Source: Cahners Building & Construction Forecast

With extremes of activity on the West Coast balanced by inactivity in New England, overall new construction, remodeling and renovation are projected to post moderate gains in each of the next two years.

BUSINESS REPORT

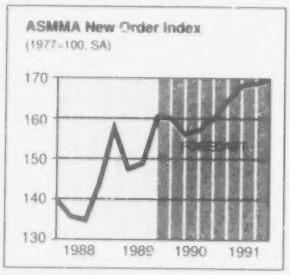
BY KRIS BLEDOWSKI

Time to rebuild inventories

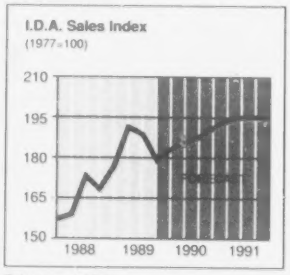
'90 recession unlikely, expansion seen in second half.

While a soft landing for the economy still seems probable, the fourth-quarter '89 GNP figures showed an economy dramatically slowing down. Inflation-adjusted GNP grew at an annual rate of only 0.9% during that period. At the same time, inventories did not grow as much as had been reported before, easing fears of overproduction and a recession. Durable goods inventory accumulation was 5.5% higher in the fourth quarter than a year previous but the rate of growth has been slowing for six months.

On the other hand, shipments have been falling. Durable goods shipments fell 0.7% in the fourth quarter and were only 1.3% higher than in the fourth quarter of 1988. We expect growth to slow to 4.3% this year, down from 6.0% in 1989.



Data source: ASMMA
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

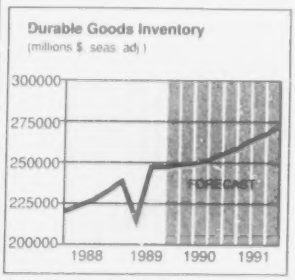
The result has been a rising inventory-to-shipments ratio. From 1.53 in December 1988 it rose to 1.6 a year later, meaning that it would take 1.6 months to liquidate all inventory. With our forecast of a rebound in shipments and a downward adjustment in inventory, the ratio is bound to go down, rather than up. It is possible that by the end of this year it will be back to 1.53.

What this means to industrial distributors is that now is the time to restock inventories in anticipation of an expansion, which we believe will come in the second half of this year. For most durable goods producers and distributors, capacity expansion should also be a priority.

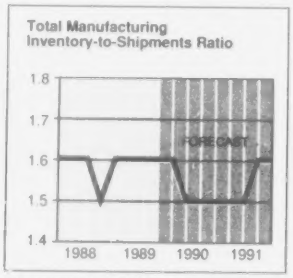
Another sign of a mild business cycle is the unfilled orders-to-shipments ratio. Typically, strong excess demand precedes a full-scale recession. Backlogs skyrocket and, by the time suppliers are aware of the reversal in growth rates, inventories are out of control.

In the two previous recessions, the ratio of unfilled orders-to-shipments in manufacturing climbed in the period prior to recession. In contrast, the period before 1986 exhibited little or no growth in backlogs relative to shipments, and no recession resulted.

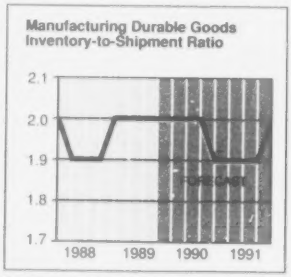
The current situation resembles 1986. In fact, the ratio has actually declined over the two years prior to today's industrial slowdown. In addition, capacity utilization has been easing, and wage/price inflation has stayed in check. □



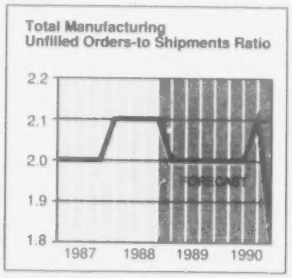
Data source: Dept. of Commerce
Forecast source: Cahners Economics



Data source: Dept. of Commerce
Forecast source: Cahners Economics



Data source: Dept. of Commerce
Forecast source: Cahners Economics



Data source: Dept. of Commerce
Forecast source: Cahners Economics

(1977=100)	SALES Jan. 1990	SALES Dec. 1989	SALES Jan. '90 vs Jan. '89 % change	RECEIVABLES Jan. 1990 days	INVENTORY Jan. 1990 % change
TOTAL	191.7	171.6	8.2	37.5	+0.5
EAST	159.2	143.7	2.2	47.5	-0.2
SOUTH	254.0	231.1	1.0	35.8	-0.1
CENTRAL	169.1	148.8	12.4	36.2	+0.9
WEST	192.8	180.0	-11.7	33.2	-0.8

SOURCE: Industrial Distribution Assn.

◄ CIRCLE NO. 59

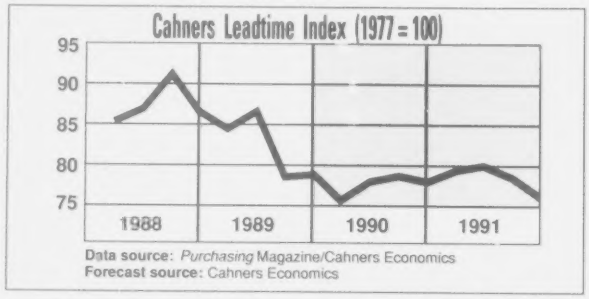
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Inflation will moderate

Fears of run-away prices unwarranted.

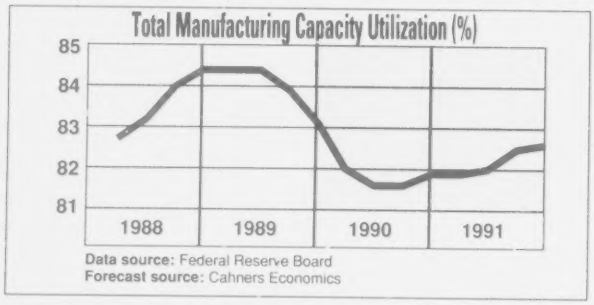
The economy's slack in the past several months has caused operating rates to slip. Capacity utilization for all industries began 1989 at 84.3% and stood at 81.9% in January 1990. Many economists believe that the strong increases in producer prices are the result of continued high rates of capacity utilization as well as high raw material prices. However, with capacity utilization falling and forecasted to rise only 1.3 points by the end of the year to 83.2%, fears of run-away inflation are unwarranted.



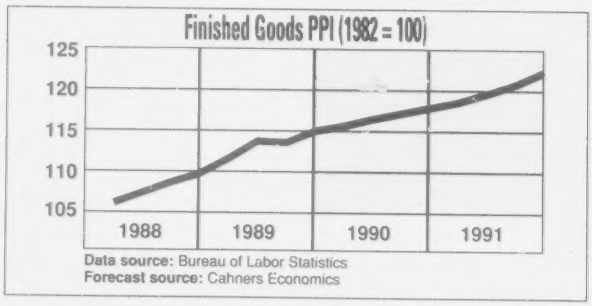
The high inflation numbers in the beginning of the year were caused by skyrocketing food and energy prices. As winter runs its course, prices should stabilize, so don't expect the Federal Reserve Board to hike interest rates to combat inflation. Since supply conditions seem to be loosening, our forecast of producer prices calls for a 3.0% increase in 1990, well below the 5.1% jump in 1989. The index for machinery and equipment is expected to jump by 3.5%, while fabricated metal products will experience a 2.5% price increase this year. In general, most price increases will be difficult to maintain until after mid-year, when economic growth will start to accelerate.

A recent survey by *Purchasing* magazine indicates that over 75% of purchasing managers experienced stable or falling prices from January to February 1990. Similarly, the commodity price index from the National Assn. of Purchasing Managers remained well below the inflation signaling 50 mark in the beginning of the year, and is forecasted to stay there until the end of 1990.

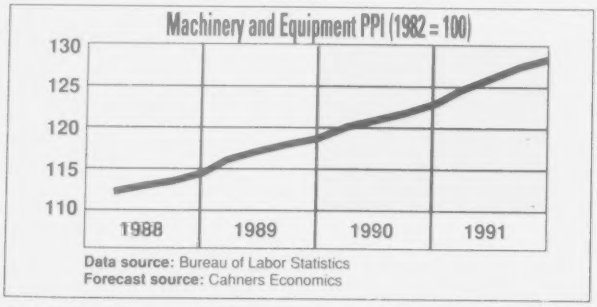
The bottom line is that inflation will be brought under control and interest rates will begin to ease. While increases in producer prices will take time to drop off, fears of 1970's-type 'stagflation' are unwarranted without some outside shock such as rising OPEC prices.



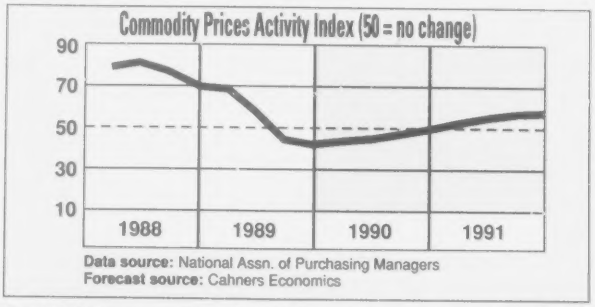
Capacity utilization will pick up slightly in 1990 as the economy warms, rising to 83.2%.



Producer price increases for all finished goods (including food & energy) will be tamed in '90.



Price increases on machinery and equipment will be small due to slack demand in 1990.



The NAPM commodity prices index will stay below the inflation signaling 50 mark until 1991.

duMONT MINUTE MAN® BROACHES

America's #1 Choice for Broaching Precision Holes

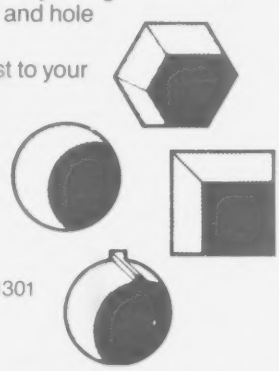
Wide Selection—of standard and special broaches. Available in 169 sizes plus complete sets.

Same-Day Shipping—Call our toll-free 800 number before 2:00 p.m. for shipment that day.

Customer Assistance—widely recognized as the clear-cut leader for keyway and hole broaches.

Priced For Profit—low cost to your customers but excellent margins for distributors.

When you see a need for broaches, make sure you call Minute Man.



duMont Corporation
Greenfield, Massachusetts 01301
1-800/628-9648

► CIRCLE NO. 61

High speed sanding in impossible places.

Mile-a-minute Belton head swivels 360°.

Unique Belton Sander B20-A . . . one of dozens of productive tools from NITTO.

360° swivel head gets into holes and crevices. Works a "mile-a-minute" to deburr or finish metal, wood, plastic, stone. Only 3.12 lbs. *New catalog shows 31 other remarkable Nitto pneumatic hand tools.*

NITTO
NITTO KOHKI U.S.A. INC.
808-C North Central Ave. · Wood Dale, IL 60191

See us at AWS, Booth #1919; Quality Expo, Booth #3333

► CIRCLE NO. 62

SUPPLY OUTLOOK

New orders will help economy

Stable inventories suggest that this downturn in the business cycle will not be as severe as many in the past. Modern inventory control techniques have helped eliminate inventories as a wildcard in the business cycle. For example, a recent survey by *Purchasing* magazine indicated that 52% of purchasing managers are experiencing steady inventory levels. Similarly, the NAPM inventory index is forecast to finish 1990 near 47.4, just below 50 (indicating no change in stocks). Both surveys point to stable inventories that should not disturb new orders, helping the economy get back on its feet in 1990. □

The NAPM inventory index will stay near 50 in the second half of '90, a sign of stable inventories.

The NAPM new order index will rise above 50 in the 3rd quarter, indicating increasing levels of bookings.

Industrial Distribution®, (ISSN 0019-8153) is published monthly by The Cahners Publishing Co., A Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. Terrence M. McDermott, President; Frank Sibley, Senior Vice President/General Manager, Boston Division; Ellsworth M. Brown, Jr., Group Vice President; Jerry D. Neth, Senior Vice President/Publishing Operations; J.J. Walsh, Senior Vice President/Finance; Thomas J. Dellamaria, Senior Vice President/Production and Manufacturing; Ralph Krupp, Vice President/Human Resources. Circulation records are maintained at Cahners Publishing Co., 44 Cook Street, Denver, CO 80206-5800. Telephone: (303)388-4511. Second-class postage paid at Denver, CO 80206-5800 and additional mailing offices. POSTMASTER: Send address corrections to INDUSTRIAL DISTRIBUTION®, at the Denver address. INDUSTRIAL DISTRIBUTION® copyright 1990 by Reed Publishing USA. Ronald G. Segal, Chairman and Chief Executive Officer; Robert L. Krakoff, President and Chief Operating Officer; William M. Platt, Senior Vice President. Annual subscription rates for non-qualified individuals: USA, $60 per year; $80 Canada/Mexico; $85 per year for surface mail; $175 per year for air mail. Except for special issues where price changes are indicated, single copies of regular issues are available for $10. Please address all subscription mail to Carla Keller, 44 Cook Street, Denver, CO 80206-5800.

REPRINTS: For quotes, contact Reprint Services, 1350 E. Touhy Ave., Des Plaines, IL 60018, (312) 635-8800.

CLIFTON'S VIEW

BY ROBERT G. CLIFTON

Managing your most important asset

People make almost all the difference in a service business.

Recently I had the pleasure of spending four days in my local hospital. Pleasure?—you say with a tone of disbelief. Yes, pleasure, I said, and I chose the word carefully.

It was a pleasure to be a patient in a hospital where all the personnel, from doctors to housekeepers, were competent, pleasant, cheerful, energetic, and personal-service minded. The comparison with my other hospital sojourns was as different as day and night.

Should I have to enter a hospital again at some future date, my selection has already been made. Wouldn't any industrial customer make the same choice between distributors given a perceptible gap in service orientation?

What led to these paragon personnel all being located in one hospital? Was it luck? Not likely. Was it higher pay? Not likely given the cost pressures on hospitals today. Then what was it?

I believe it all started with the hospital management. At the end of my admissions interview I was handed a personalized note of greetings from the administrator. It hoped my stay would be as pleasant as possible. If anything troubled me, please phone him at extension 1234.

After admission, I became aware that operations ran smoothly and on time. Meals arrived almost exactly on time. Medication came when it was specified. Everything I could observe ran as a jeweled watch. There had to be top notch management to insure such results.

I also noticed that when patients are treated well, their moods and expectations rise, making it easier for the nurses to deal with them. All aspects of the hospital function ran at high efficiency, not only the personnel attitudes.

Employees of an industrial distributor are not hidden away in a basement shovelling coal. Almost all of them have occasion for customer contact, including truck drivers, warehousemen and office workers. As a customer you are profoundly influenced by your impression of these contacts. Take a simple test—how much of your impression of a hotel is based on your first contact at the front desk? A lot.

Competent, customer service-oriented personnel are more important for a distributor than for many businesses. Service is what you sell. Products can usually be bought from a number of competitors.

Also, bear in mind that personnel costs (salaries plus fringe benefits) are considerably more than half your total operating expenses (see box).

Remember too that if you are not competent in selecting, training and retaining people, your operation's efficiency will slide as well as the service attitudes of your employees.

Demographics show we have passed the peak of the baby-boomers entering the job market. New entrants will be smaller each year in the new decade. But take heart. Even if your ability to pay higher salaries is limited, there is much you can do to train and retain quality people.

According to Frederick Herzberg in the *Harvard Business Review*, these are the leading job satisfaction factors in the eyes of employees:

1. achievement
2. recognition
3. the work itself
4. responsibility
5. advancement
6. growth

Herzberg also probed into the leading causes of job dissatisfaction:

1. company administrative policy
2. supervision
3. relationship with supervisor
4. working conditions
5. salary

Is there room for improvement in any of these at your business?

You can't give away the store in pay boosts, we agree. But whatever you decide to do, you must monitor its effect on your Personnel Productivity Ratio (PPR) shown above. This data is extracted from the 1989 *Distributor Productivity Report* produced by the I.D.A.

These figures are easy to calculate. Simply compute the ratio of total dollar personnel costs by department to total company dollar gross margin. The quoted results are for the average general line distributor reporting to I.D.A. Lay out your numbers next to these and you will quickly see how you can measure up to your competitors. You could have a good number in one department and a bad one in another.

Space does not permit a discussion of all the steps you could take to prove your service orientation while keeping one eye on the effect of the changes on your PPR. We will discuss some of these next month.

But it is certain that many avenues are open that do not cost a dime, yet can achieve a big long run payback.

PERSONNEL PRODUCTIVITY RATIO

From 1989 *Distributor Productivity Report* compiled I.D.A. Left column shows PPR for average general line industrial distributor. Right column represents achievable goals in the consultant's view. (*Less than 100% response in some categories.)

	Average*	Goal
Sales Dept.	28.8%	29%
Office Dept.	8.2	8
Warehouse	5.8	4
Delivery	1.8	2
Purchasing	3.1	3
Administration	8.8	9
TOTAL PPR	60.2%	55%

You must be competent in selecting, training and retaining people.